

A2A

Sector: Utilities

OUTPERFORM

Price: Eu1.75 - Target: Eu2.10

Very Strong Start to the Year Expected

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Stock Rating

Rating: from NEUTRAL to OUTPERFORM

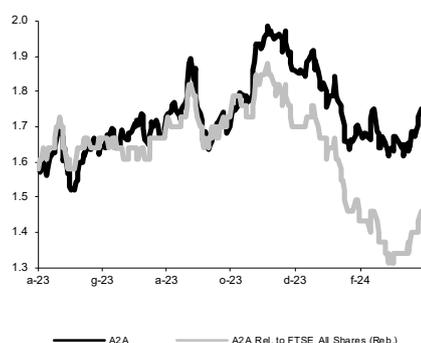
Target Price (Eu): from 1.90 to 2.10

	2024E	2025E	2026E
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event

Results Out May 14, 2024

A2A - 12M Performance



Stock Data

 Reuters code: A2.MI
 Bloomberg code: A2A IM

Performance	1M	3M	12M
Absolute	7.2%	-2.8%	11.5%
Relative	9.1%	-13.7%	-8.2%
12M (H/L)	1.99/1.52		
3M Average Volume (th):	13,765.96		

Shareholder Data

No. of Ord shares (mn):	3,133
Total no. of shares (mn):	3,133
Mkt Cap Ord (Eu mn):	5,489
Total Mkt Cap (Eu mn):	5,489
Mkt Float - Ord (Eu mn):	2,315
Mkt Float (in %):	42.2%
Main Shareholder:	
Municipalities of Milano and Brescia	50.0%

Balance Sheet Data

Book Value (Eu mn):	4,529
BVPS (Eu):	1.45
P/BV:	1.2
Net Financial Position (Eu mn):	-6,227
Enterprise Value (Eu mn):	12,520

■ **1Q24 results preview.** On the macro front, 1Q24 saw a sharp decline in electricity prices, driven downwards by falling gas and CO2 prices. In detail: the electricity PUN averaged Eu92/MWh in the quarter (-42% YoY and -26% QoQ), the gas PSV Eu29/MWh (-49% and -28%) and CO2 Eu60/ton (-34% and -25%). On the electricity side, the quarter was characterized by strong hydro and wind production, while on the gas side, demand in Italy remained under pressure (-4% YoY), penalized by weak consumption by the thermoelectric and residential segments. In this context, we expect A2A to report very solid figures, thanks primarily to very robust margins in the hydroelectricity segment (higher production, higher average electricity selling prices, with 1Q23 capped at Eu62/MWh) and higher margins in the Market segment. In detail: we project ordinary EBITDA at Eu652mn (+33% YoY) and ordinary net income at Eu263mn (+52% YoY). On the balance sheet, net debt is expected to slightly increase to around Eu4.8bn from Eu4.7bn as at YE23, reflecting seasonal working capital expansion after the contraction recorded in 4Q23.

■ **2024 guidance expected to be confirmed.** We expect A2A to confirm the 2024 guidance announced in mid-March on release of the new 2024-35 business plan, with EBITDA seen at Eu2.00-2.02bn and net income at Eu570-590mn. On the financial side, we expect A2A to confirm the target of a net debt/EBITDA ratio below 2.8x over the plan period. We highlight that the guidance could prove a little conservative if our expectations for a very robust start to the year are confirmed.

■ **Updated estimates and valuation.** Ahead of 1Q24 results, we are leaving our FY24 projections unchanged; these are already slightly above company guidance at EBITDA level. We note that after FY23 results, we updated our projections, primarily to reflect lower energy prices (PUN 2024/25/26 at Eu95/90/85/MWh) and a slower pace for projected wind and solar capacity additions. In addition, we slightly increased our projections for the Market segment, as well as for Smart Infrastructures, including the acquisition of the Enel grid at YE2024 (Eu1.35bn additional net debt, Eu95mn EBITDA contribution in 2025), while slightly reducing Waste to reflect lower volumes/margins and potential delays in projected WTE capacity additions. In terms of the valuation, we are now increasing our target price to Eu2.10ps from Eu1.90ps to reflect a higher valuation of the Smart Infrastructures and Waste businesses in our SoP valuation.

■ **Investment case. Upgrade to OUTPERFORM from Neutral.** A2A, akin to the rest of the Power Generators, has been under strong pressure YtD, penalized by the sharp decline of electricity prices. With the PUN now trading again close to Eu100/MWh, supported by higher gas and CO2 prices (PSV back to Eu30/MWh, CO2 close to Eu70/ton), we believe there is a chance we have already seen the lowest point for electricity and gas prices. Taking into account the very poor performance recorded by the stock in recent months and expectations of very robust 1Q24 results, we are upgrading the stock to Outperform. At current prices, A2A is trading at a very undemanding valuation (6.1x 2024 EV/EBITDA. 9.3x P/E), while offering an appealing yield (5.6%). On Group financial leverage, we see no cause for concern (S&P confirmed the rating and outlook just a few weeks ago after the deal with Enel).

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	23,166	14,743	13,745	12,422	12,767
EBITDA Adj (Eu mn)	1,502	1,930	2,044	2,043	2,056
Net Profit Adj (Eu mn)	380	635	588	521	514
EPS New Adj (Eu)	0.121	0.203	0.188	0.166	0.164
EPS Old Adj (Eu)	0.121	0.203	0.188	0.166	0.164
DPS (Eu)	0.090	0.096	0.099	0.102	0.105
EV/EBITDA Adj	6.1	5.5	6.1	6.0	6.0
EV/EBIT Adj	13.3	10.4	11.6	12.0	12.3
P/E Adj	14.4	8.6	9.3	10.5	10.7
Div. Yield	5.2%	5.5%	5.6%	5.8%	6.0%
Net Debt/EBITDA Adj	2.8	2.4	3.0	2.9	2.9

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emitente	%	Long/Short
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